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South China's Hidden Treasures Report: Retail Market Profile:

Buoyant Retail Sector in South China's 2nd tier Cities Unveiled

Report Categories:

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Report Highlights:

Summary: South China is regarded as a major export destination for many U.S. agricultural exports with a continuous 34-percent growth from \$5.1 billion in 2009 to \$7.7 billion in 2011. This region in Mainland China has experienced unparalleled levels of urbanization, changes in consumption patterns, a larger middle class, and increasing consumption power not limited to the already mature 1st tier cities, but also in a number of 2nd and 3rd tier cities. These cities have strong consumer demand for many U.S. and other imported goods, and some retail chain have forged their way into these secondary cities playing a pivotal role as sales outlets. Many 2nd tier cities' retail sectors are lush with opportunities for U.S. exporters. This report provides a panorama for several of South China's hidden treasures: secondary cities with high market potential for U.S. consumer goods in the retail sector.

General Information:

Retail Market - ATO Guangzhou’s priority outreach cities: Nanning

Nanning is the capital of Guangxi Zhuang Autonomous Region and is listed as one of the top ten cities in terms of GDP growth in 2011 within South China. Nanning also serves as cede for the annual China-ASEAN (Association of Southeast Asian Nations) Expo since 2005 and is regarded as a foreign trade hub among Southeast Asian countries.

Transportation:

Rail: High-speed rail line from Nanning to Guangzhou, and another high-speed railway to be built on the Vietnam border

Air: Nanning Wuxu International Airport

In 2011, total sales amount of retail goods in Nanning reached \$17.034 billion compared to only \$ 2.594 billion in 2001. The precipitous increase over a ten-year period came from a prominent increase in local consumer purchasing power and massive economic development. The commercial trade and services industry accounted for over 50 percent of the city’s GDP growth. Changes in local consumption patterns provided enough room for the development of supermarkets and convenience stores beyond the Nanning city center. Although department stores are still the major format for consumption in Nanning’s food retail industry, (there are currently 40 retail outlets) the proportion of supermarkets and convenience store purchasing versus department store remains at less than half. Well-known foreign retailers such as Wal-Mart and CR-Vanguard’s Olé formats have marked their entry into Nanning. Olé, the largest chain of high-end supermarket format in Mainland China opened a new outlet September 2012 with 70 percent of it’s shelf space dedicated to imported goods and many U.S. snack foods as a result of a national retail promotion ATO Guangzhou organized with support from the China Mission Country Strategy Support Funds (CSSF).

Nanning’s geographic proximity to ASEAN countries has provided an opportunity for low-priced agricultural food products imported from Vietnam, Thailand, and Malaysia. Many of these products are using U.S. origin products that have been processed in the ASEANs. Exporters are taking advantage of the ASEAN-China free trade agreement to export these products duty-free into China. Still, a growing number of affluent consumers have affinity to U.S. and European food and beverage items and they are open to purchasing more of these imported products from local retailers.

Changsha

Changsha is the capital city of Hunan province in central China. It is one of the country’s 20 “economically advanced” cities. In 2011, Changsha’s per capita GDP reached \$79,530, and capita disposable income of \$4,198. In recent Changsha has attracted a substantial level of foreign direct investment (FDI) that has been guided by national authorities. In 2009, nearly \$1 worth in FDI poured into the city’s

Transportation:

Air: Changsha Huanghua International Airport

Rail:

- Changsha Railway Station connects most cities in China
- Changsha South Railway Station is passenger-only high speed train
- Wuhan-Guangzhou High-Speed Railway stops here
- Shanghai-Changsha-Kunming high-speed railway under construction

south

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manufacturing, food production and services sectors, with 28 percent of that sum originating from the Americas. Changsha’s retail sales figures are equally impressive reaching \$11.7 billion in 2009.

Changsha is a dynamic consumption market. The retail sector in this city includes department stores and medium to large scale supermarkets as well as national chain convenience stores. Other than well-established local retailers, Changsha has also attracted many multinational players which have driven the city’s retail sector to greater integration and development. Since 2001, foreign retailers entered Changsha and over the past decade, the competition for certain products such as imported fresh fruit and wines has become fierce. Currently, there are over seven multinational retailers operating in Changsha. Foreign supermarket brands not only bring in a wide variety of consumer options to local residents, but also advanced management and retail promotion practices which appeal to a broad range of consumers. On the other hand, the rapid expansion of chain convenience stores located in residential enclaves is also gaining popularity among local consumers. Retailers are competing to meet the growing consumer demand for a “better lifestyle” understood by locals as consuming high quality products and paying greater attention to food safety. At the end of 2010, ATO Guangzhou also led several U.S. producer association local representatives, importers and distributors to Changsha and carried out retail industry outreach and panel discussions. U.S. exporters are highly encouraged to explore opportunities in this flourishing city market.

Dongguan

Dongguan is one of the most affluent cities in Mainland China with per capita disposable income of \$6,271 in 2011. It is adjacent to Shenzhen and accessible through the Guangzhou-Hong Kong railway, highway or waterway.

Optimization of Dongguan’s image has accelerated a change of consumption pattern. Dongguan has a growing number of urbanized consumers with high incomes as well as expatriates accustomed to consuming high-end imported food items. As a major manufacturing in China, the retail sector in Dongguan used to focused on locally established supermarkets and community convenience stores. In recent years, however, more top notched supermarkets such as All Good, Dream On, Carrefour, as well as other international brands including Wal-Mart, Trust-Mart, Tesco, Metro and Jusco have high-end retail formats in Dongguan. Statistics show that in 2011, sales revenue generated from supermarkets reached \$610 million, which was more than double than 2008.

Transportation:
Rail: Connects Guangzhou and Hong Kong through the Kowloon-Canton Railway

Highway: Humen Pearl Bridge connects Guangzhou with Shenzhen

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Fuzhou/Xiamen

Fuzhou is the capital of Fujian Province and considered a center for industrial chemicals food-processing. The city ranked 7th in terms of GDP in 2011 and with per capita disposal income reaching \$8,276. Fuzhou is one the important port cities in China and has attracted many foreign food items in local supermarkets. city’s proximity to Taiwan and a large number

Fuzhou Transportation:
Airport: Fuzhou Changle International Airport
Rail:

- Wai Fu Railway connects Jiangxi Province
- Wen Fu Railway connects Wenzhou jin Zhejiang Province
- Fu Xia Railway runs towards Xiamen

Seaport: Fuzhou Seaport

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overseas Fujian decedents also make this market more open to the consumption of imported food items. Fresh produce including Washington apples, California table grapes, Sunkist oranges are familiar to local residents and can be found in almost every supermarket. Foreign grocery items such as canned food, packaged food, infant formula, cereal, olive oil, dried goods, and organic products are also sold by both local and international retailers. Besides multinational retailers, local supermarket chains such as Yonghui and Xinhudou are also striving to compete and trying to increase their own portfolio with more imported food and beverage items.

Xiamen has a diverse and well-developed economy where its primary economic activities are food processing, textiles and fisheries. As one of the major cities in Southeast China, Xiamen had a GDP per capita of \$11,227 in 2011, which was among the top five in South China. Although there have been several large retailers operating in Xiamen, these supermarkets are still in need of improvement to enrich its import food portfolio in order to satisfy a large group of middle class consumers. With the rapid expansion in Xiamen's retail sector as well as hotel and restaurants, there is greater potential for U.S. agricultural products entering this market.

Other opportunities:

Xiamen Transportation:

Road: Fuzhou-Xiamen and Zhangzhou-Xiamen Express Highways within Fujian Province and neighboring Provinces Guangzhou, Jiangxi and Zhejiang, also container freight services between Xiamen, Shenzhen and Hong Kong

Railways:

- Yingtan-Xiamen Railway
- Fuzhou-Xiamen High-Speed Railway
- Passenger Trains from Xiamen to Shanghai, Nanjing, Hefei, Fuzhou
- Longyan-Xiamen Railway/Xiamen-Shenzhen High-Speed Train

Air: Xiamen Gaoqi International Airport

Zhongshan is an important 2nd tier city with outstanding performance in terms of foreign food importation. The city has a GDP per capita of \$9,650 in 2011. Many key retailers such as Jusco, Wal-Mart and RT-Mart opened subsidiary outlets in Zhongshan and are vying for market share in the constantly growing retail sector.

Haikou is the main port in Hainan province handling more than half of the island's total import volume. The city is becoming a trade facilitation hub for distribution to other provinces, and has been investing heavily on infrastructure and launching several duty free policies since 2011. Besides domestic department stores, Haikou has two RT-Mart and three Carrefour outlets. All of these supermarkets carry U.S. fresh fruits and a number of U.S. snack foods and beverage items. However, Hainan has a large specialized imported goods store operated by a Guangzhou trader featuring almost every format of U.S. supermarket food items. U.S. exporters and producer associations are highly encouraged to seek further opportunities in this growing market and ATO Guangzhou can facilitate introductions to the local trade.

Conclusion:

South China's retail sector has been in the spotlight of the country's spectacular economic marvels. The region's 2nd tier cities are poised to become the next competitive markets for foreign importation. Demand for high quality products and food safety is higher in some secondary cities than in the large city markets. Although the slowdown in global economy impacted China's overall domestic consumption, the retail sector is still developing towards exuberant growth presently and in the near future. The purchasing power of the aspiring middle class with incomes ranging from \$6,000~\$25,000 a year in these 2nd tier cities is also instrumental in driving the retail sector to new heights. On the other

hand, wealthy consumers in these areas increased from 1.6 million in 2008 to 3million in 2013 and about 4 million in 2015-- mostly residing in East and South regions of the country, according to a market research company. Demand for high caliber imported food and grocery items will remain strong and they will become the major consumer base for supermarket chains. ATO Guangzhou will continue to look inside undiscovered potential in South China's secondary cities, and encourage U.S. exporters and producer associations to seek entry into these markets.

Appendix:

Map of Major 2nd Tier Cities in Guangdong Province:



Source from Foshan University International Office

Map of Fuzhou and Xiamen in Fujian Province



Source from Chinatour360.com